

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Unit Name Village of Hanover	County Jackson	Type Village	Municode
Opinion Date July 15, 2008	Audit Submitted August 27, 2008	Fiscal Year February 29, 2008	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1.	Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2.	Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3.	Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4.	Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5.	Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6.	Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7.	Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8.	Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9.	Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10.	Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11.	Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12.	Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13.	Is the audit opinion unqualified?
	14.	If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15.	Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16.	Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17.	To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18.	Are there reported deficiencies?
<input checked="" type="checkbox"/>	19.	If so, was it attached to the audit report?

General Fund Revenue	\$ 97,244
General Fund Expenditure	\$ 88,292
Major Fund Deficit Amount	\$ 0

General Fund Balance	\$ 40,786
Governmental Activities Long-Term Debt (see instructions)	\$ 11,067

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

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VILLAGE OF HANOVER

FINANCIAL STATEMENTS

FEBRUARY 29, 2008

**KARL L. DRAKE P.C.
CERTIFIED PUBLIC ACCOUNTANT**

VILLAGE OF HANOVER

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Hanover
Hanover, Michigan 48890

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Hanover, as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Hanover's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Hanover as of February 29, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2008, on our consideration of the Village of Hanover's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Village Council
Village of Hanover

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 22 through 25 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Hanover's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Karl L. Drake, P.C.
Certified Public Accountant

July 15, 2008

This section of the Village of Hanover's annual financial report presents discussion and analysis of the Village's financial performance during the fiscal year ended February 29, 2008. It is best read in conjunction with the Village's financial statements that follow this section.

Overview

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Village of Hanover financially and the two types of statements present different views of the Village. The government-wide statements reflect information about the activities of the entire Village, presenting an aggregate view and a longer-term view of the Village's overall financial status. The fund financial statements focus on individual components of Village government, reporting the Village's operations in more detail and demonstrating how services were financed in the short term.

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Village as a whole using accounting methods similar to those used by private-sector companies. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting. All of the year's revenue and expenses are taken into account regardless of when cash is received or paid. The two government-wide statements report the Village's net assets - the difference between assets and liabilities- as one way to measure the Village's financial health or position. Over time, increases or decreases in the Village's net assets are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Village, additional non-financial factors such as changes in the Village's property tax base and the condition of the Village's streets, need to be considered.

The government-wide financial statements of the Village are divided into two categories:

- *Governmental activities* - Most of the Village's basic services are included here, such as public works, parks and general administration. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities* - Operation and maintenance of water system and sanitary sewer system would be included here. The Village would charge fees to customers to cover the costs of providing these services. Currently, the Village does not maintain any business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. The Village Council establishes funds as needed to help it control and manage money for particular purposes or to demonstrate that it is meeting legal responsibilities.

The Village currently has two types of funds:

Governmental funds - Most of the Village's basic services are included in governmental funds that focus on how money flows in and out and the balances remaining at year-end that are available for spending. Activity is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Village that helps you determine whether there are more or fewer resources that can be spent in the near future to finance the Village's programs. The relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

Proprietary funds - Services for which the Village charges customers a fee are reported in proprietary funds. Proprietary fund statements provide both long and short-term financial information. Currently, the Village does not maintain any proprietary funds.

The Village as a Whole

The statement of net assets presents the perspective of the Village as a whole. Table 1 provides a summary of the Village's net assets as of February 29, 2008 and 2007 in thousands of dollars.

TABLE 1	Governmental Activities	
	2008	2007
ASSETS		
Current and Other Assets	\$ 229.3	\$ 313.5
Capital Assets	409.5	322.1
TOTAL ASSETS	638.8	635.6
LIABILITIES		
Current Liabilities	4.4	3.5
Long-Term Liabilities	7.4	10.9
TOTAL LIABILITIES	11.8	14.4
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	398.5	307.7
Restricted	---	---
Unrestricted	228.5	313.5
TOTAL NET ASSETS	\$ 627.0	\$ 621.2

The Village as a Whole (Continued)

In the governmental activities, capital assets are depreciated on a straight-line basis.

The Village's combined net assets were \$627.0 thousand at February 29, 2008. Capital assets (net of related debt) totaling \$398.5 thousand compares the historical cost, less depreciation, to the long-term debt used to finance the acquisition of those assets. The \$627,024 in combined unrestricted net assets reflects the accumulated results of all past years' operations.

The following table shows the revenue and expense activity during the current fiscal year, and the change in net assets (in thousands of dollars), as reported in the statement of activities. No audit was performed in the prior fiscal year, so prior year information is not included.

	Government al Activities
TABLE 2	
REVENUE	
Program Revenue	
Charges for services	\$ 2.0
General Revenue	
Property taxes	59.7
Federal Grants	---
State entitlements	66.6
Interest earnings	1.5
Other	6.5
TOTAL REVENUE	<u>136.3</u>
EXPENSES	
General Government	38.8
Public Safety	12.9
Public Works	40.0
Recreation	10.4
Interest On Long Term Debt	0.7
Depreciation (Unallocated)	27.7
TOTAL EXPENSES	<u>130.5</u>
CHANGE IN NET ASSETS	<u>\$ 5.8</u>

Governmental Activities

The governmental activities experienced an increase in net assets of \$5,780. The primary reason was street improvements financed with state street revenue.

The Village's Funds

An analysis of the Village's major funds follows the government-wide financial statements. As noted earlier, the Village creates funds to help manage money for specific purposes and to demonstrate accountability for certain activities. The Village's major governmental funds are the General Fund, the Major Streets Fund, and the Local Streets Fund.

The General Fund pays for most of the Village's governmental services and supports capital improvements in the street funds. The General Fund is supported mainly by property taxes and state shared revenue, while the street funds are financed by the state gas and weight tax. At the end of the year, the governmental funds reported a combined fund balance of \$228,567, which is a decrease of \$85,183 from the previous year.

General Fund Budgetary Highlights

Over the course of the year, the Village generally amends the budget in response to changing events. In the year ended February 29, 2008, no budget amendments were made.

Capital Asset and Debt Administration

At the end of this fiscal year, the Village managed capital assets valued at over \$410 thousand including property, buildings, streets, vehicles and equipment.

Capital Assets Net of Accumulated Depreciation (dollars are in thousands)		
	Governmental Activities	
	2008	2007
Non-Depreciable Assets		
Land	\$ 61	\$ 61
Depreciable Assets		
Buildings	6	7
Vehicles	25	28
Equipment	60	67
Infrastructure	258	159
Total	\$ 410	\$ 322

At year-end, the Village had long-term debt outstanding of \$11,067.

Economic Factors and Next Year's Budgets and Rates

In preparing the 2008-2009 budget, the Village expects similar activity levels to 2007-2008. State shared revenue has been consistently declining in recent years, and this trend is expected to continue. Other revenue is expected to be consistent to 2007-2008 totals. There are no street projects scheduled for 2008-09.

Contacting the Village's Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village Office, P.O. Box 66, Hanover, MI 49241.

BASIC FINANCIAL STATEMENTS

VILLAGE OF HANOVER

Government-Wide Financial Statements

STATEMENT OF NET ASSETS

February 29, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 194,313	\$ ---	\$ 194,313
Due From Other Governmental Units	27,198	---	27,198
Accounts Receivable	7,754	---	7,754
Prepaid Expenditures	---	---	---
Inventory	---	---	---
Total Current Assets	229,265	---	229,265
Non-Current Assets			
Capital Assets	650,285	---	650,285
Less: Accumulated Depreciation	-240,761	---	-240,761
Total Non-Current Assets	409,524	---	409,524
TOTAL ASSETS	\$ 638,789	\$ ---	\$ 638,789
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 698	\$ ---	\$ 698
Accrued Interest	---	---	---
Notes and Bonds Payable, Due within One Year	3,732	---	3,732
Total Current Liabilities	4,430	---	4,430
Non-Current Liabilities			
Deferred Revenue	---	---	---
Notes and Bonds Payable	7,335	---	7,335
Compensated Absences	---	---	---
Total Non-Current Liabilities	7,335	---	7,335
TOTAL LIABILITIES	11,765	---	11,765
NET ASSETS			
Invested in Capital Assets, Net of Related Debt Restricted for Debt Service	398,457	---	398,457
Unrestricted	228,567	---	228,567
TOTAL NET ASSETS	627,024	---	627,024
TOTAL LIABILITIES AND NET ASSETS	\$ 638,789	\$ ---	\$ 638,789

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED FEBRUARY 29, 2008

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges For Services	Operating Grants	Governmental Activities	Business Type Activities	
	Expenses					
FUNCTIONS/PROGRAMS						
Governmental Activities						
General Government	\$ 38,831	\$ ---	\$ ---	\$ -38,831	\$ ---	\$ -38,831
Public Safety	12,932	---	---	-12,932	---	-12,932
Public Works	39,976	2,039	---	-37,937	---	-37,937
Recreational and Cultural	10,418	---	---	-10,418	---	-10,418
Interest on Long-Term Debt	650	---	---	-650	---	-650
Depreciation (Unallocated)	27,736	---	---	-27,736	---	-27,736
Total Governmental Activities	130,543	2,039	---	-128,504	---	-128,504
Business-Type Activities	---	---	---	---	---	---
Total Activities	\$ 130,543	\$ 2,039	\$ ---	\$ -128,504	\$ ---	\$ -128,504
General Revenue						
Taxes						
Property Taxes, Levied for General Operations				\$ 59,678	\$ ---	\$ 59,678
Property Taxes, Levied for Debt Service				---	---	---
Federal Grants				---	---	---
State of Michigan Aid, Unrestricted				66,617	---	66,617
Interest Earnings				1,486	---	1,486
Transfer In <Out>				---	---	---
Other				6,503	---	6,503
Total General Revenue				134,284	---	134,284
CHANGE IN NET ASSETS				5,780	---	5,780
NET ASSETS - BEGINNING OF YEAR				621,244	---	621,244
NET ASSETS - END OF YEAR				\$ 627,024	\$ ---	\$ 627,024

See Accompanying Notes to Financial Statements.

VILLAGE OF HANOVER

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

FEBRUARY 29, 2008

	General	Major Streets	Local Streets	Other Non-Major	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 65,516	\$ 121,456	\$ 7,341	\$ ---	\$ 194,313
Accounts Receivable	7,754	---	---	---	7,754
Due from Other Governmental Units	---	22,055	5,143	---	27,198
Due from Other Funds	---	27,668	4,118	---	31,786
Prepaid Expenditures	---	---	---	---	---
Inventory	---	---	---	---	---
TOTAL ASSETS	\$ 73,270	\$ 171,179	\$ 16,602	\$ ---	\$ 261,051
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 107	\$ ---	\$ ---	\$ ---	\$ 107
Due to Other Funds	31,786	---	---	---	31,786
Payroll Taxes Payable	591	---	---	---	591
TOTAL LIABILITIES	32,484	---	---	---	32,484
FUND BALANCES					
Reserved for Capital Projects	---	---	---	---	---
Reserved for Debt Service	---	---	---	---	---
Unreserved, Designated	---	---	---	---	---
Unreserved and Undesignated	40,786	171,179	16,602	---	228,567
TOTAL FUND BALANCES	40,786	171,179	16,602	---	228,567
TOTAL LIABILITIES AND FUND BALANCES	\$ 73,270	\$ 171,179	\$ 16,602	\$ ---	\$ 261,051
TOTAL GOVERNMENTAL FUND BALANCES	\$ 228,567				
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:					
Cost of the Capital Assets	650,285				
Accumulated Depreciation	<u>-240,761</u>				
	409,524				
Long-term Liabilities are not due and payable in the current period and are not reported in the fund:					
Bonds and Loans Payable	-11,067				
Compensated Absences	---				
Accrued interest is not included as a liability in governmental funds	<u>---</u>				
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 627,024				

See Accompanying Notes to Financial Statements.

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

YEAR ENDED FEBRUARY 29, 2008

	General	Major Streets	Local Streets	Other Non-Major	Totals
REVENUE					
Property Taxes	\$ 59,678	\$ ---	\$ ---	\$ ---	\$ 59,678
Federal Grants	---	---	---	---	---
State Grants	28,702	30,760	7,155	---	66,617
Charges for Services	2,039	---	---	---	2,039
Interest	322	994	170	---	1,486
Other	6,503	---	---	---	6,503
TOTAL REVENUE	97,244	31,754	7,325	---	136,323
EXPENDITURES					
General Government	36,331	---	---	---	36,331
Public Safety	12,932	---	---	---	12,932
Public Works	21,911	90,538	42,676	---	155,125
Recreational and Cultural	10,418	---	---	---	10,418
Debt Service	4,200	---	---	---	4,200
Capital Outlay	2,500	---	---	---	2,500
TOTAL EXPENDITURES	88,292	90,538	42,676	---	221,506
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	8,952	-58,784	-35,351	---	-85,183
OTHER FINANCING SOURCES <USES>					
Bond Proceeds	---	---	---	---	---
Operating Transfers In	---	---	---	---	---
Operating Transfers Out	---	---	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---	---	---
NET CHANGE IN FUND BALANCES	8,952	-58,784	-35,351	---	-85,183
FUND BALANCES - BEGINNING OF YEAR	31,834	229,963	51,953	---	313,750
FUND BALANCES - END OF YEAR	\$ 40,786	\$ 171,179	\$ 16,602	\$ ---	\$ 228,567

See Accompanying Notes to Financial Statements.

VILLAGE OF HANOVER

Fund Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED FEBRUARY 29, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ -85,183**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-27,736	
Capital Outlay	<u>115,149</u>	87,413

- Governmental funds report bond proceeds as revenue. In the statement of activities these costs are not reported. They are included as liabilities in the statement of net assets.

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.

- Repayments of note and bond principal are an expenditure in the governmental fund, but not in the statement of activities (where it reduces long-term debt).

3,550

- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds.

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 5,780**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Village of Hanover is a general law village located in Jackson County, Michigan. The Village operates under an elected council consisting of nine members and provides various services to its approximately 424 residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the Village are the Major Streets Fund and Local Streets Fund.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

C. BUDGETS AND BUDGETARY ACCOUNTING

The General Fund and Special Revenue Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES

Real and personal property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1, of the subsequent year. Taxes are due and payable as of September 15. The property tax revenue in the accompanying financial statements was recognized as that levied during the year.

All unpaid taxes become delinquent after September 15, at which time the uncollected real taxes are returned to Jackson County for collection and to be added to the delinquent tax rolls. The County of Jackson purchases delinquent real property taxes of the Village of Hanover. The County sells tax notes, the proceeds of which are used to pay the Village for the taxes.

The Village is authorized to assess 12.5 mills for general operations. The millage rate levied for 2007 was 8.3024 mills for operations. Total taxable value of real and personal property in the Village was \$7,280,846.

The Village is responsible for the collection of delinquent personal property taxes.

E. CASH EQUIVALENTS

The Village considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

F. FINANCIAL INSTRUMENTS

The Village does not require collateral to support financial instruments subject to credit risk.

G. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

H. FUND EQUITY

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

I. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets (e.g. streets, bridges, drains) are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	15-50 years
Vehicles	5-10 years
Other equipment	5-20 years

J. RISK MANAGEMENT

The Village is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Village carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

K. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

L. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with United States generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

M. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS**LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS**

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Village, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS (CONTINUED)

2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village is in compliance with State law regarding their cash deposits.

The Village maintains all of its cash deposits at one bank and one credit union.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Village's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC and NCUA)	\$ 155,000	\$ 155,000
Uninsured & Uncollateralized	39,313	39,890
Total Deposits	<u>\$ 194,313</u>	<u>\$ 194,890</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

NOTE 3 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at February 29, 2008.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Village's Governmental activities was as follows:

	Balance March 1, 2007	Additions	Disposals and Adjustments	Balance February 29, 2008
Assets not being depreciated:				
Land	\$ 60,818	\$ ---	\$ ---	\$ 60,818
Capital assets being depreciated:				
Buildings	60,153	---	---	60,153
Vehicles	35,974	---	---	35,974
Equipment	103,123	---	---	103,123
Infrastructure	275,068	115,149	---	390,217
Subtotal	474,318	115,149	---	589,467
Accumulated depreciation:				
Buildings	53,372	781	---	54,153
Vehicles	7,634	3,597	---	11,231
Equipment	36,262	7,206	---	43,468
Infrastructure	115,757	16,152	---	131,909
Subtotal	213,025	27,736	---	240,761
Net capital assets being depreciated	261,293	87,413	---	348,706
Net capital assets	\$ 322,111	\$ 87,413	\$ ---	\$ 409,524

Depreciation expense was not charged to activities as the Village considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

At February 29, 2008, there were interfund payables or receivables as follows:

Due to		Due From	
Major Streets	\$ 27,668	General	\$ 27,668
Local Streets	4,118	General	4,118
	<u>\$ 31,786</u>		<u>\$ 31,786</u>

NOTE 6 - ACCUMULATED PERSONAL AND VACATION PAY

Village employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned. The amount accrued at the end of the year was immaterial and not recorded.

NOTE 7 - RETIREMENT PLAN

The Village does not participate in any retirement plan.

NOTE 8 - BUDGETARY ACCOUNTING

During the year ended February 29, 2008, the Village incurred expenditures that were in excess of the amounts appropriated in the following:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
GENERAL FUND			
Debt Service	\$ 2,000	\$ 4,200	\$ 2,200
Capital Outlay	1,000	2,500	1,500
MAJOR STREETS FUND			
Public Works	37,300	90,538	53,238
LOCAL STREETS FUND			
Public Works	11,500	42,676	31,176

NOTE 9 - LONG-TERM DEBT

On October 25, 2006, the Village financed the purchase of a truck for \$15,761. Monthly payments are \$350 including interest at 5%. The balance remaining at February 29, 2008 was \$11,067. Future obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended February 28, 2009	\$ 3,732	\$ 468	\$ 4,200
2010	3,922	278	4,200
2011	3,413	87	3,500
	<u>\$ 11,067</u>	<u>\$ 833</u>	<u>\$ 11,900</u>

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF HANOVER

General Fund

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED FEBRUARY 29, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ ---	\$ ---	\$ 59,678	\$ 59,678
Federal Grants	---	---	---	---
State Grants	---	---	28,702	28,702
Charges for Services	---	---	2,039	2,039
Interest	---	---	322	322
Other	---	---	6,503	6,503
Transfers In	---	---	---	---
TOTAL REVENUE	---	---	97,244	97,244
EXPENDITURES				
General Government	54,400	54,400	36,331	18,069
Public Safety	15,100	15,100	12,932	2,168
Public Works	24,300	24,300	21,911	2,389
Recreation and Cultural	15,500	15,500	10,418	5,082
Debt Service	2,000	2,000	4,200	-2,200
Capital Outlay	1,000	1,000	2,500	-1,500
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	112,300	112,300	88,292	24,008
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-112,300	-112,300	8,952	121,252
BUDGETARY FUND BALANCE - BEGINNING OF YEAR	31,834	31,834	31,834	---
BUDGETARY FUND BALANCE - END OF YEAR	\$ -80,466	\$ -80,466	\$ 40,786	\$ 121,252

BUDGETARY COMPARISON SCHEDULE**YEAR ENDED FEBRUARY 29, 2008**

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
Federal Grants	---	---	---	---
State Grants	---	---	30,760	30,760
Charges for Services	---	---	---	---
Interest	---	---	994	994
Other	---	---	---	---
Transfers In	---	---	---	---
TOTAL REVENUE	---	---	31,754	31,754
EXPENDITURES				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	37,300	37,300	90,538	-53,238
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	37,300	37,300	90,538	-53,238
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-37,300	-37,300	-58,784	-21,484
BUDGETARY FUND BALANCE - BEGINNING OF YEAR	229,963	229,963	229,963	---
BUDGETARY FUND BALANCE - END OF YEAR	\$ 192,663	\$ 192,663	\$ 171,179	\$ -21,484

VILLAGE OF HANOVER

Local Streets

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED FEBRUARY 29, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
Federal Grants	---	---	---	---
State Grants	---	---	7,155	7,155
Charges for Services	---	---	---	---
Interest	---	---	170	170
Other	---	---	---	---
Transfers In	---	---	---	---
TOTAL REVENUE	---	---	7,325	7,325
EXPENDITURES				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	11,500	11,500	42,676	-31,176
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	11,500	11,500	42,676	-31,176
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-11,500	-11,500	-35,351	-23,851
BUDGETARY FUND BALANCE - BEGINNING OF YEAR	51,953	51,953	51,953	---
BUDGETARY FUND BALANCE - END OF YEAR	\$ 40,453	\$ 40,453	\$ 16,602	\$ -23,851

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF HANOVER

GENERAL FUND

BALANCE SHEET**FEBRUARY 29, 2008****ASSETS**

Cash	\$ 65,516
Taxes Receivable	<u>7,754</u>

TOTAL ASSETS	<u>\$ 73,270</u>
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LIABILITIES AND FUND BALANCE

Liabilities	
Accounts Payable	\$ 107
Due to Other Funds	31,786
Payroll Taxes Payable	<u>591</u>

Total Liabilities	<u>32,484</u>
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Fund Balance	<u>40,786</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 73,270</u>
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VILLAGE OF HANOVER

General Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2008

	Budget	Actual	Variance Favorable <Unfavorable>
REVENUE			
Property Taxes	\$ ---	\$ 59,678	\$ 59,678
State Shared Revenue	---	28,702	28,702
Equipment Rental	---	2,039	2,039
Interest	---	322	322
Cable TV	---	1,281	1,281
Miscellaneous	---	5,222	5,222
TOTAL REVENUE	---	97,244	97,244
EXPENDITURES			
GENERAL GOVERNMENT			
Village Council			
Salaries	2,500	2,340	160
Miscellaneous	---	---	---
Training	---	---	---
Repairs	---	35	-35
	2,500	2,375	125
Election	600	---	600
Clerk			
Salaries	9,500	9,100	400
Supplies and postage	---	2,366	-2,366
Operating supplies	---	809	-809
Telephone	---	1,282	-1,282
Travel	---	560	-560
Printing	800	215	585
	10,300	14,332	-4,032
Treasurer			
Salaries	8,000	7,162	838
Supplies and postage	---	---	---
Tax printing	500	---	500
Miscellaneous	---	42	-42
	8,500	7,204	1,296
Village Hall			
Contract Labor	---	120	-120
Repairs	9,000	1,712	7,288
Utilities	1,500	1,934	-434
	10,500	3,766	6,734
Audit	3,000	---	3,000
Insurance	15,000	5,761	9,239
Payroll Taxes	2,000	2,396	-396
Dues and Subscriptions	2,000	497	1,503
TOTAL GENERAL GOVERNMENT	\$ 54,400	\$ 36,331	\$ 18,069

	Budget	Actual	Variance Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
PUBLIC SAFETY			
Planning and Development			
Professional fees	\$ ---	\$ 160	\$ -160
Contract labor	1,000	800	200
Printing	---	---	---
Repairs	---	75	-75
	1,000	1,035	-35
Law Enforcement	11,000	9,386	1,614
Fire Safety			
Repairs	---	439	-439
Services	3,000	---	3,000
Utilities	100	2,072	-1,972
	3,100	2,511	589
TOTAL PUBLIC SAFETY	15,100	12,932	2,168
PUBLIC WORKS			
Salaries	---	10,143	-10,143
Gas and Oil	800	649	151
Sidewalks	10,000	---	10,000
Utilities	---	846	-846
Street Lights	7,000	6,964	36
Repairs	5,500	3,069	2,431
Lawn Care	1,000	240	760
TOTAL PUBLIC WORKS	24,300	21,911	2,389
RECREATION AND CULTURAL			
Salaries	---	1,826	-1,826
Contract Labor	4,500	---	4,500
Utilities	---	360	-360
Repairs	1,000	1,852	-852
Lawn Care	5,000	729	4,271
Miscellaneous	5,000	5,651	-651
TOTAL PARKS AND RECREATION	15,500	10,418	5,082
DEBT SERVICE	2,000	4,200	-2,200
CAPITAL OUTLAY	1,000	2,500	-1,500
TOTAL EXPENDITURES	112,300	88,292	24,008
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-112,300	8,952	121,252
FUND BALANCE - BEGINNING OF YEAR	31,834	31,834	---
FUND BALANCE - END OF YEAR	\$ -80,466	\$ 40,786	\$ 121,252

VILLAGE OF HANOVER

SPECIAL REVENUE FUNDS

Special Revenue Funds

Major Streets Fund

Local Streets Fund

VILLAGE OF HANOVER

Special Revenue Funds

COMBINING BALANCE SHEET

FEBRUARY 29, 2008

	Major Streets	Local Streets	Total
ASSETS			
Cash	\$ 121,456	\$ 7,341	\$ 128,797
Due from Other Funds	27,668	4,118	31,786
Due from Other Governments	22,055	5,143	27,198
TOTAL ASSETS	\$ 171,179	\$ 16,602	\$ 187,781
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ ---	\$ ---	\$ ---
Fund Balance	171,179	16,602	187,781
TOTAL LIABILITIES AND FUND BALANCES	\$ 171,179	\$ 16,602	\$ 187,781

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2008

	Major Streets	Local Streets	Total
REVENUE			
Taxes	\$ ---	\$ ---	\$ ---
Intergovernmental Revenue	30,760	7,155	37,915
Interest	994	170	1,164
Other	---	---	---
TOTAL REVENUE	31,754	7,325	39,079
EXPENDITURES			
Public Works	90,538	42,676	133,214
Capital Outlay	---	---	---
Debt Service	---	---	---
TOTAL EXPENDITURES	90,538	42,676	133,214
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-58,784	-35,351	-94,135
FUND BALANCE - BEGINNING OF YEAR	229,963	51,953	281,916
FUND BALANCE - END OF YEAR	\$ 171,179	\$ 16,602	\$ 187,781

VILLAGE OF HANOVER

Major Streets Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2008

	Budget	Actual	Variance Favorable <Unfavorable>
REVENUE			
State of Michigan	\$ ---	\$ 30,760	\$ 30,760
Interest	---	994	994
Miscellaneous	---	---	---
TOTAL REVENUE	---	31,754	31,754
EXPENDITURES			
Street Construction			
Professional Fees	---	7,635	-7,635
Construction	---	78,325	-78,325
	---	85,960	-85,960
Routine Maintenance			
Labor	1,750	380	1,370
Operating Supplies	10,000	---	10,000
Maintenance	6,200	1,431	4,769
Equipment Rental	50	---	50
	18,000	1,811	16,189
Winter Maintenance			
Labor	1,750	101	1,649
Operating Supplies	10,000	139	9,861
Maintenance	5,000	2,303	2,697
Equipment Rental	50	---	50
	16,800	2,543	14,257
Traffic Services			
Utilities	500	224	276
Maintenance	2,000	---	2,000
	2,500	224	2,276
TOTAL EXPENDITURES	37,300	90,538	-53,238
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-37,300	-58,784	-21,484
FUND BALANCE - BEGINNING OF YEAR	229,963	229,963	---
FUND BALANCE - END OF YEAR	\$ 192,663	\$ 171,179	\$ -21,484

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2008

	Budget	Actual	Variance Favorable <Unfavorable>
REVENUE			
State of Michigan	\$ ---	\$ 7,155	\$ 7,155
Interest	---	170	170
Other	---	---	---
TOTAL REVENUE	---	7,325	7,325
EXPENDITURES			
Street Construction			
Professional Fees	---	3,404	-3,404
Construction	---	37,414	-37,414
	---	40,818	-40,818
Routine Maintenance			
Labor	900	78	822
Operating Supplies	500	---	500
Maintenance	3,300	715	2,585
Equipment Rental	100	---	100
	4,800	793	4,007
Winter Maintenance			
Labor	900	26	874
Operating Supplies	500	159	341
Maintenance	5,000	880	4,120
Equipment Rental	100	---	100
	6,500	1,065	5,435
Traffic Services			
Maintenance	200	---	200
TOTAL EXPENDITURES	11,500	42,676	-31,176
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-11,500	-35,351	-23,851
FUND BALANCE - BEGINNING OF YEAR	51,953	51,953	---
FUND BALANCE - END OF YEAR	\$ 40,453	\$ 16,602	\$ -23,851

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Village Council
Village of Hanover

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Hanover, as of and for the year ended February 29, 2008, which collectively comprise the Village of Hanover's basic financial statements and have issued our report thereon dated July 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Hanover's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Hanover's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Hanover's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Hanover's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Hanover's financial statements that is more than inconsequential will not be prevented or detected by the Village of Hanover's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Financial Statements Preparation

The Village does not have procedures in place to prepare financial statements in accordance with United States generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

Budgets

As noted in the financial statements, some of the expenditure activities of the Village exceeded the amounts appropriated.

The Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

Audit Adjustments

As part of the audit process, several adjustments, including adjusting the financial records from cash to accrual basis, were recommended to management and made to adjust various general ledger balances as of February 29, 2008. These journal entries were necessary in order for the financial statements to be materially correct.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Hanover's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Hanover's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We noted certain matters that we reported to management of the Village of Hanover in a separate letter dated July 15, 2008.

This report is intended for the information and use of management, the Village Council, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, P.C.
Certified Public Accountant

July 15, 2008

Karl L. Drake, P.C.
Certified Public Accountant

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**(517) 937-9333 Phone / 563-2552 Fax
Email: kdrakecpa@gmail.com**

July 15, 2008

To the Village of Hanover

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Village of Hanover for the year ended February 29, 2008, and have issued our report thereon dated July 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 11, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated January 11, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Village of Hanover are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year, for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future

events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation is based on useful life of the assets. We evaluated the key factors and assumptions used to develop the estimate, in determining that it is reasonable, in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of long-term debt in Note 9 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 8, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. The primary discussions held this year revolved around the lack of segregation of responsibilities in the Village office. These discussions occurred in the normal course of our professional relationship, however, and our responses were not a condition to our retention.

We would like to take this opportunity to discuss various comments and recommendations related to this year's audit.

- When preparing the annual budget, budget for revenue as well as expenditures. Attempt to show the financial resources (property taxes, state shared revenue, etc.) that will be available during the fiscal year. Also, as circumstances change during the year, amend the budget at a Council meeting to reflect the changes necessary. Do not allow expenditures to exceed the budgeted amounts. If they are going to exceed the budget, amend the budget to reflect the additional expenditures.
- At least quarterly, the Clerk should prepare a statement showing budget and actual comparisons. This allows the Council to make amendments as necessary, and better manage the finances of the Village.
- The General Fund has owed money to the Street Funds for several years. These amounts should be transferred to the Street Funds as soon as possible. At February 29, 2008, the General Fund owed \$27,667.72 to the Major Streets Fund and \$4,117.76 to the Local Streets Fund.
- Interest earned by the Major Streets Fund savings account should be posted to the general ledger on a monthly basis. Activity in the debit account should also be posted monthly.
- Annually, usually at the first Council meeting of the fiscal year, the Council should authorize the Village depositories (banks, credit unions, etc.) and the check signers.
- The Village has maintained certificate of deposit accounts at a local credit union for several years. These accounts earn a very low rate of interest. We recommend the Treasurer be authorized by the Council to research area banks, and that the monies be moved to increase the investment earnings of the Village. Annually, the Council should determine if more resources can be invested in higher interest alternatives to maximize earnings.
- At each Council meeting, the reconciled cash balances from the Treasurer's report should be compared to the amounts from the balance sheet from the Clerk's records. These amounts should always agree.

This information is intended solely for the use of the Village of Hanover and management of the Village of Hanover and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Karl L. Drake".

Karl L. Drake, P.C.